

## Message Text

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ACTION ARA-10

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TO SECSTATE WASHDC 6512

INFO AMEMBASSY BRASILIA

UNCLAS LA PAZ 3019

E.O. 11652: N/A

TAGS: EMIN, BEXP, BL

SUBJECT: MAJOR PROJECT: STATUS REPORT ON MUTUN

REF: LA PAZ 2421

1. SHORT-TERM OUTLOOK. ACCORDING TO MAJOR CARLOS MORALES, GENERAL MANAGER OF SIDERSA (STATE IRON AND STEEL COMPANY) AND FERNANDO KEMPF, SIDERSA TECHNICAL ADVISOR, MC KEE REPRESENTATIVES, INCLUDING PRESIDENT ON MCKEE LATIN AMERICA CORP. R.B. AUFMUTH, ARRIVED IN LA PAZ ON APRIL 27 TO BEGIN FINAL NEGOTIATIONS ON FEASIBILITY STUDY CONTRACT. MORALES EXPECTED NEGOTIATIONS AND OTHER PROCEDURES PRIOR TO SIGNING MIGHT REQUIRE TWO MONTHS. AFTER SOME DISCUSSION, MORALES AND KEMPF DECIDED TIME REQUIRED COULD BE MUCH SHORTER IF MCKEE DELEGATION HAS FULL POWERS TO MAKE DECISIONS.

2. THEY INDICATED THAT THE PURPOSE OF THE NEGOTIATIONS IS TO INDUCE MCKEE TO STRENGTHEN CERTAIN SECTIONS OF ITS SCOPE OF WORK, REDUCE THE SCOPE OF WORK IN OTHER SECTIONS AND FILL OUT CONTRACT DETAILS. THEY DID NOT BELIEVE MCKEE WOULD HAVE SUBSTANTIVE OBJECTIONS TO THEIR PROPOSALS AND THEY DID NOT INDICATE THAT MCKEE'S FEE WOULD BE SUBJECT TO FURTHER NEGOTIATIONS.

3. THEY STATED THAT THE BRAZILIAN US\$10 MILLION LOAN FOR FINANCING MUTUN FEASIBILITY STUDIES WOULD BE SIGNED WITHIN THE NEXT FEW DAYS.

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4. MEDIUM-TERM OUTLOOK. MORALES SAID THAT THE CONTRACT WOULD CALL

UPON MCKEE TO STAFF AN OFFICE IN LA PAZ WITH PERSONNEL FROM THE US AND THAT SIDERSA NOW EXPECTED THE MAIN FEASIBILITY STUDY FOR THE IRON AND STEEL COMPLEX TO BE COMPLETED WITHIN TWO YEARS. AN INTERMINISTERIAL COMMITTEE HAS BEEN ESTABLISHED UNDER ING. MIGUEL TEJADA TO COORDINATE DECISIONS ON THE IRON AND STEEL COMPLEX WITH DECISIONS ON THE RELATED INDUSTRIES AND THE GAS TRANSMISSION CONTRACT. MORALES SAID FEASIBILITY STUDIES FOR THE GAS PIPELINE AND THE OTHER RELATED PROJECTS WOULD SOON BE INITATED WITH AN EXPECTED COMPLETION TIME OF ONE YEAR OR LESS. HE EXPECTED THAT THE MUTUN IRON AND STEEL STUDY WOULD BE SUFFICIENTLY FAR ALONG BY THAT TIME TO PERMIT DECISIONS TO BEGIN CONSTRUCTION OF THE OTHER PROJECTS. HE THOUGHT THE UREA FERTILIZER PLANT PROJECT COULD BE CONSIDERED AS INDEPENDENT OF THE REST OF THE INDUSTRIAL COMPLEX AND, THEREFORE, ITS CONSTRUCTION COULD BE INITATED EVEN SOONER.

5. MORALES AND KEMPF ASSERTED THAT THERE WAS NO DOUBT THAT THE FEASIBILITY STUDY WOULD INDICATE THAT THE IRON AND STEEL PROJECT SHOULD BE UNDERTAKEN. THEY SAID THAT ALL THE STUDIES UNDERTAKEN OVER LAST FEW YEARS HAD STRENGTHENED THE EVIDENCE THAT THERE WAS SUFFICIENT IRON ORE AND THAT THE STEEL AND LAMINATION PLANT PROJECTS ARE PRACTICAL. THEY SAID THE MAIN ISSUES THAT THE FEASIBILITY STUDY SHOULD RESOLVE ARE LOCATIONS ON MUTUN MOUNTAIN WHERE MINING SHOULD BE INITATED AND TECHNOLOGY TO BE EMPLOYED IN VARIOUS PLANTS. THEY INDICATED THAT SPONGE IRON AND PELLET PLANTS REMAINED A PART OF PROJECTED COMPLEX DESPITE ADMITTED RIVER AND RAIL TRANSPORTATION PROBLEMS THAT REMAIN TO BE RESOLVED. THEY EMPHATICALLY STATED THAT MARKETING SOUNDINGS INDICATED ARGENTINA, BRAZIL AND OTHER COUNTRIES WOULD TAKE ALL THE SPONGE IRON AND PELLETS THE PROJECTED PLANTS INITIALLY COULD PRODUCE.  
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